TEACHERS' RETIREMENT BOARD

INVESTMENT COMMITTEE

SUBJECT: Report of the Chief Investment Officer — ITEM NUMBER: 18

ATTACHMENTS: 5

ACTION: ____ — DATE OF MEETING: July 10, 2002

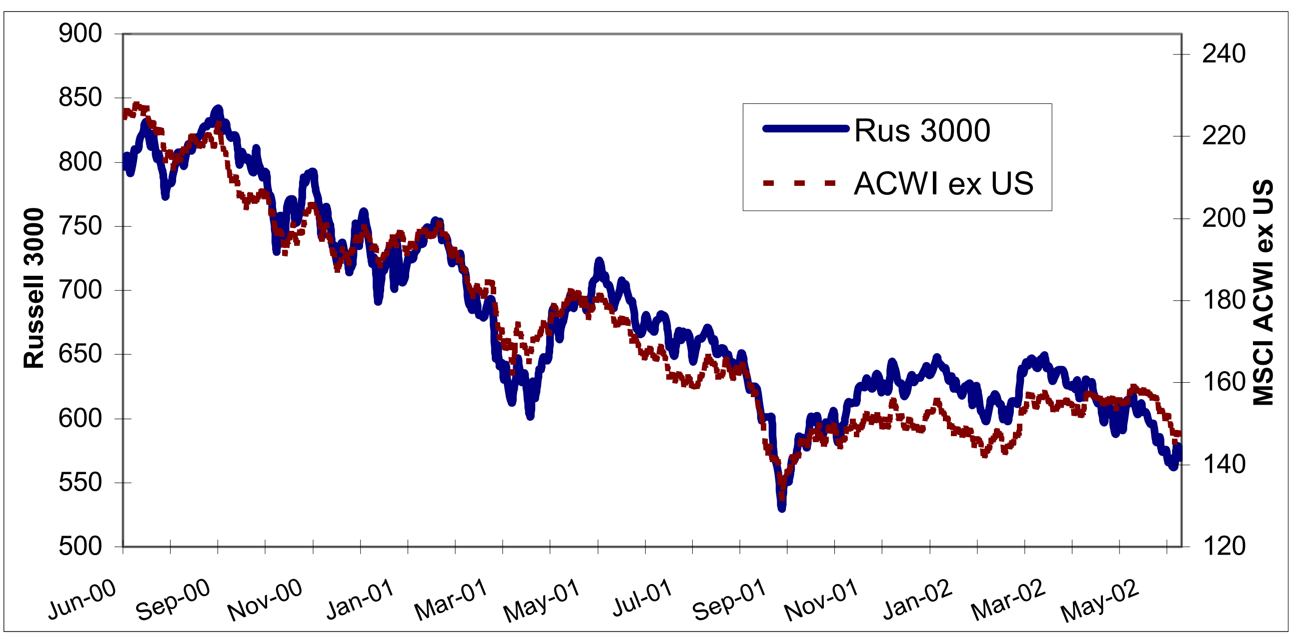
INFORMATION: X — PRESENTER: Christopher J. Ailman

Attached are the monthly reports for the period ending May 31, 2002. Listed below is a brief summary of the developments that have occurred in the financial markets from end of the reporting period to the date of the Committee packet and the same indices fiscal year to date. The CIO will provide a further verbal update at the meeting.

	May 31, 2002	June 19, 2002	Direction
Interest rates:			
Federal Funds (target)	1.82%	1.68%	⇅ Trading range
10-year U.S. Treasury Note yield	5.04%	4.73%	↓ Down 31 BP
30-year U.S. Treasury Bond yield	5.62%	5.39%	↓ Down 23 BP
U.S. Equity market:			
Russell 3000 Index	596.29	569.18	↓ Down 27.11
S&P 500 Index	1067.14	1019.99	↓ Down 47.15
NASDAQ Index	1615.73	1496.83	↓ Down 118.90
Non-U.S. Equity market:			
MSCI ACWI free (ex. U.S.)	156.29	145.85	↓ Down 10.44
MSCI EAFE	1171.51	1090.68	↓ Down 80.83
MSCI Emerging Markets	346.28	328.73	↓ Down 17.55
Currencies:			
Euro in U.S.$	.93	.96	↓ Weaker U.S. $
Yen per U.S. $	124.22	123.81	⇅ Trading range
British Pound in U.S.$	1.46	1.49	↓ Weaker U.S. $
Commodities:			
Crude Oil per barrel	$25.31	$25.31	⇅ Trading range
Gold	$326.50	$319.80	↓ Down $6.70
Mega Watt Hour (CA-OR on-peak)	$22.00	$20.00	⇅ Trading range

This chart provides an overview of the changes in the financial markets since the beginning of the Fiscal Year.

	June 30, 2001	June 19, 2002	Direction
Interest rates:			
Federal Funds	4.00%	1.68%	↓ Down 232 BP
10-year U.S. Treasury Note yield	5.39%	4.73%	↓ Down 66 BP
30-year U.S. Treasury Bond yield	5.74%	5.39%	↓ Down 35 BP
U.S. Equity market:			
Russell 3000 Index	677.35	569.18	↓ Down 108.17
S&P 500 Index	1224.42	1019.99	↓ Down 204.43
NASDAQ Index	2160.54	1496.83	↓ Down 663.71
Non-U.S. Equity market:			
MSCI ACWI free (ex. U.S.)	167.46	145.85	↓ Down 21.61
MSCI EAFE	1261.49	1090.68	↓ Down 170.81
MSCI Emerging Markets	322.89	328.73	↑ Up 5.84
Currencies:			
Euro in U.S.$	.85	.96	↓ Weaker U.S. $
Yen per U.S. $	124.72	123.81	↓ Weaker U.S. $
British Pound in U.S.$	1.41	1.49	↓ Weaker U.S. $
Commodities:			
Crude Oil per barrel	$26.24	$25.31	↓ Down $0.93
Gold	$270.00	$319.80	↑ Up $49.80
Mega Watt Hour (CA-OR on-peak)	$81.00	$20.00	↓ Down $61.00



Attachment 1
Investment Committee - Item 18
July 10, 2002

CalSTRS INVESTMENT COMMITTEE

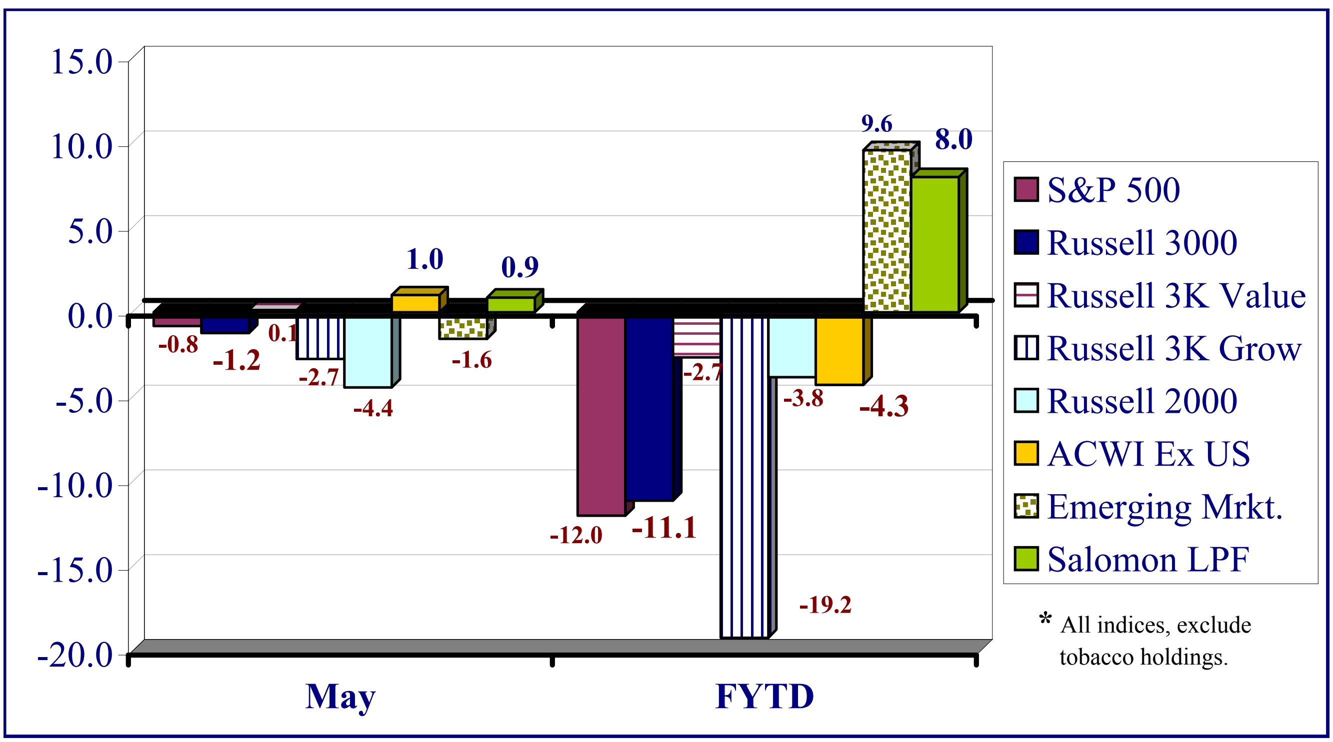
Chief Investment Officer Report

Capital Market Environment

May 31, 2002

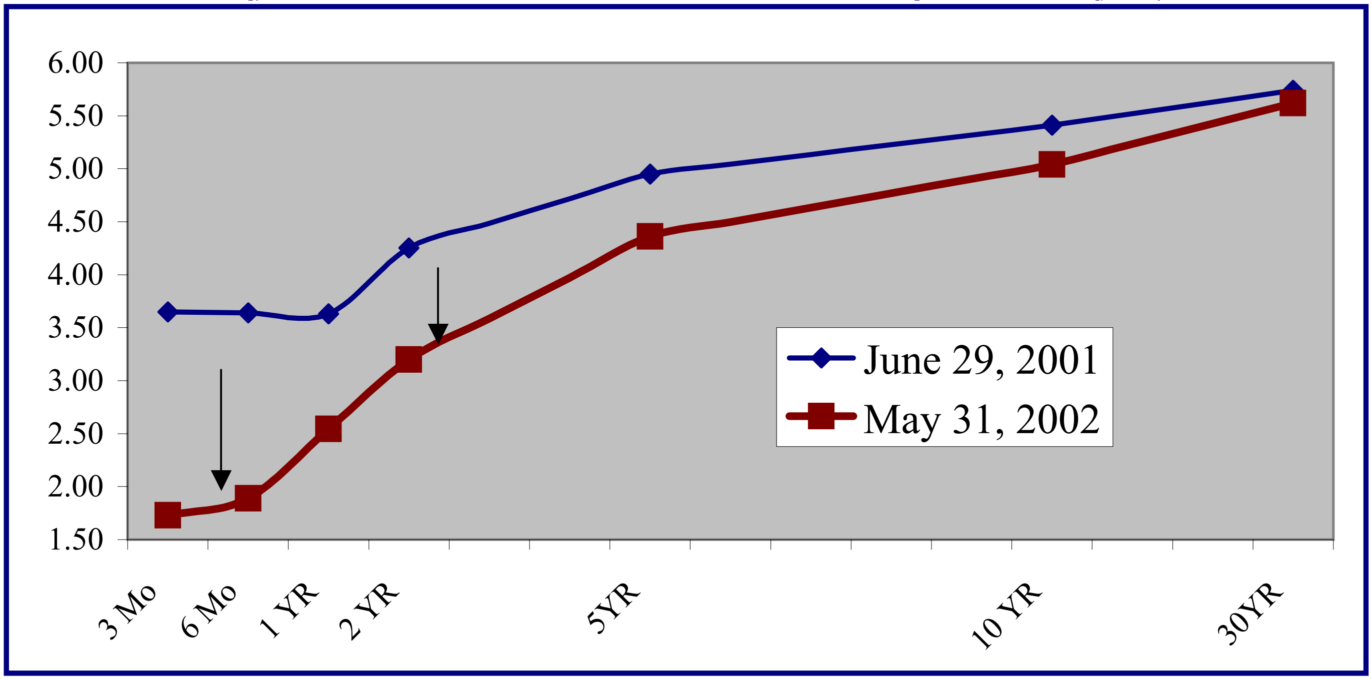
Russell 3000 January 1, 1999 - May 31, 2002 (Weekly Price)

Capital Market Returns - Month of May and Fiscal Year to Date

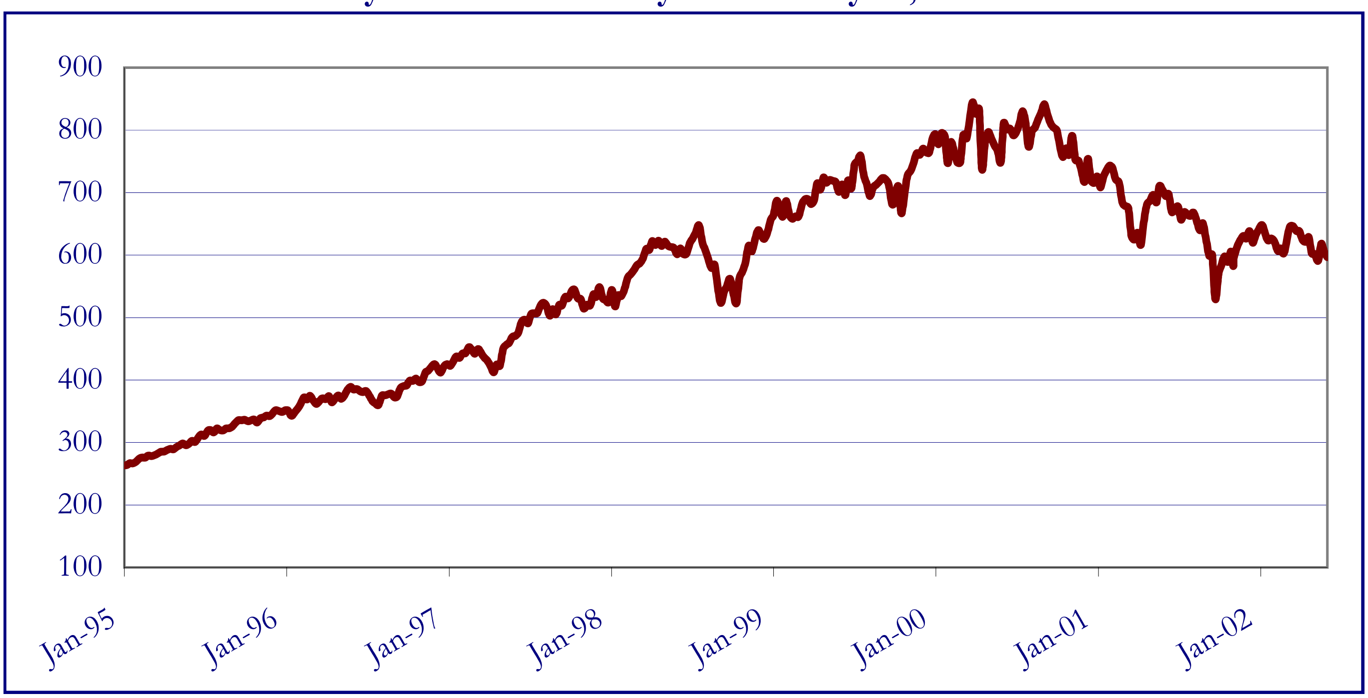


Capital Markets Data

U.S. Treasury Yield Curve Fiscal Year '01 close compared to May 31, 2002



Russell 3000 Weekly close from January 1995 to May 31, 2002

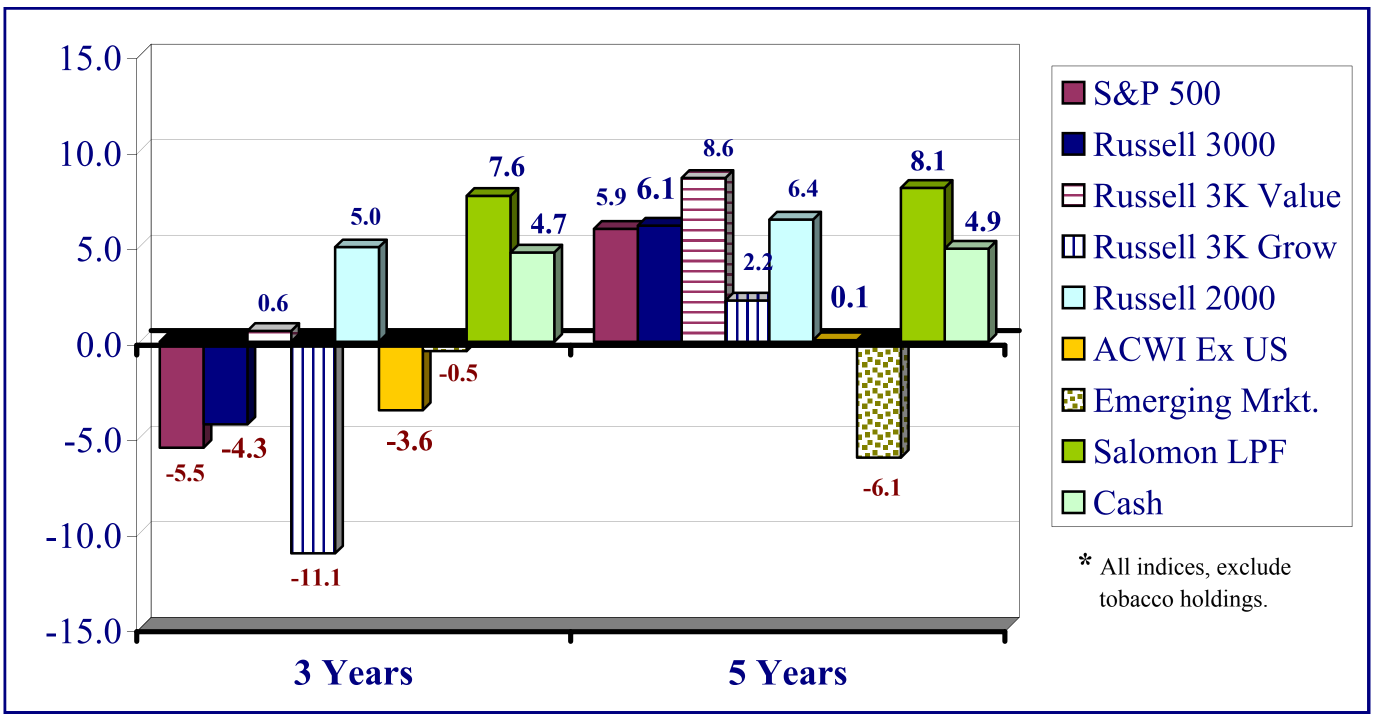


Review of Long-Term Capital Markets Data

California STRS State Teachers' Retirement System

Russell 3000 since the 1990's

Capital Market Returns - For the 3 & 5 years ending May 31, 2002



Attachment 2
Investment Committee - Item 19
July 10, 2002

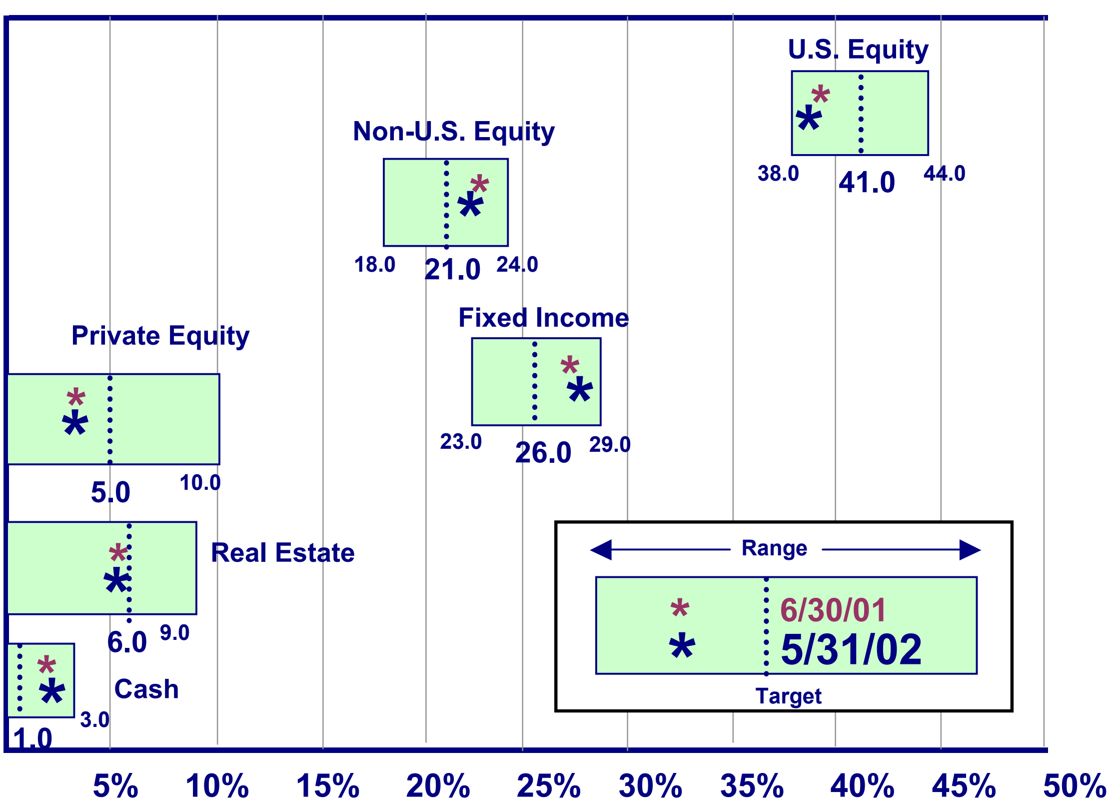
CalSTRS Retirement Fund
Monthly Asset Allocation Report

As of May 31, 2002

	FY '01-'02 TARGETS	ACTUAL May-02	Off Target (000s)
U.S. Equity	41%	38.4%	$ (2,639,182)
Non-U.S. Eq.	21%	21.9%	$ 869,956
Fixed Income	26%	28.0%	$ 2,013,931
Private Equity	5%	4.4%	$ (606,502)
Real Estate	6%	5.2%	$ (765,713)
Cash	1%	2.1%	$ 1,127,511

Current Allocation

versus Long Term Targets and Policy Ranges



Investment Summary - Market Value *(amounts in millions)*

Asset	This Month		One Year Ago		Three Years Ago		Five Years Ago	
Domestic Equity	$ 38,408	38.4%	$ 40,072	38.4%	$ 43,925	45.6%	$ 25,553	35.4%
International Equity	21,894	21.9%	22,862	21.9%	20,851	21.7%	14,778	20.5%
Fixed Income	28,044	28.0%	28,216	27.0%	25,108	26.1%	25,188	34.9%
Global Asset Allocators	N/A	N/A	N/A	N/A	1,005	1.0%	2,206	3.1%
Real Estate	5,241	5.2%	4,554	4.4%	2,176	2.3%	1,855	2.6%
Alternative Investments	4,399	4.4%	5,011	4.8%	2,401	2.5%	1,369	1.9%
Liquidity	2,128	2.1%	3,607	3.5%	835	0.9%	1,164	1.6%
Total Market Value	$ 100,114	100.0%	$ 104,322	100.0%	$ 96,301	100.0%	$ 72,113	100.0%

Performance Returns for Major Asset Categories

Asset	Month	Fiscal YTD	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Domestic Equity	-1.02	-10.43	-12.10	-3.83	6.06	11.49
Int'l Equity	0.97	-4.29	-7.67	-2.48	0.97	N/A
Fixed Income	0.91	8.03	8.40	7.51	8.31	8.29
Real Estate	N/A	N/A	12.53	11.60	14.91	7.92
Alternative Investments	N/A	N/A	-14.10	15.97	18.50	19.39
Liquidity	0.22	3.60	4.05	5.77	5.88	5.54
Total Fund	0.13	-2.50	-4.22	1.19	6.49	8.93
Indicies						
Domestic Equity Custom *	-0.88	-11.89	-13.52	-4.61	5.89	11.71
MSCI AC ex US *	1.02	-4.27	-7.96	-3.58	0.08	5.36
Salomon LPF	0.87	7.99	8.43	7.64	8.06	8.15
Real Estate Custom	N/A	N/A	6.97	9.80	11.58	7.99
T-Bill	0.15	2.31	2.64	4.54	4.72	4.60
Consumer Price Index	0.56	1.58	1.76	2.85	2.47	2.61
Russell 3000 *	-1.22	-11.11	-12.76	-4.33	6.08	11.80
MSCI EAFE *	1.18	-6.01	-9.88	-4.40	0.26	5.28
MSCI Emerging Mkt Free*	-1.55	9.58	7.28	-0.48	-6.07	2.21
LB Gov / Corp	0.92	7.32	7.84	7.44	7.55	7.42

Allocations of Cash and Reallocations of Assets
(does not include changes in the market value)

	Current Month	Past 12 Months
Cash Inflow:		
Contributions & misc receipts	$ 357.4	$ 4,619.8
Less: Benefits & misc. payments	$ (651.1)	$ (4,938.4)
Investment Income	$ 396.8	$ 3,838.8
Total Cash Inflow	$ 103.1	$ 3,520.2
Cash Allocation:		
Domestic Equity	$ 31.1	$ 3,754.4
International Equity	$ 99.5	$ 1,286.7
Fixed Income	$ 27.0	$ (746.9)
Real Estate	$ 77.3	$ 409.2
Alternative Investments	$ (20.9)	$ 302.4
Liquidity	$ (111.0)	$ (1,485.6)
Total Cash Allocation	$ 103.1	$ 3,520.2

* Indicies reflect ex Tobacco returns beginning 9/1/2000

Asset Allocation Percentage

Assets	Actual	Target	Difference	Range
Public Equity	60.2%	62.0%	(1.8%)	56 - 68
Public Fixed Income	30.1%	27.0%	3.1%	23 - 32
Private Equity	9.6%	11.0%	(1.4%)	8 - 14
Total Investment Assets	100.0%	100.0%		
Which can be compared to the strategic targets				
Active - Domestic Equity	7.8%	8.2%	(0.4%)	5-11
Passive - Domestic Equity	30.6%	32.8%	(2.2%)	30-36
TOTAL DOMESTIC EQUITY	*38.4%*	*41.0%*	*(2.6%)*	*38 - 44*
Active - International Equity	9.7%	10.5%	(0.8%)	7 - 14
Passive -International Equity	12.2%	10.5%	1.7%	7 - 14
TOTAL NON-US EQUITY	*21.9%*	*21.0%*	*0.9%*	*18 - 24*
TOTAL PUBLIC EQUITY	***60.2%***	***62.0%***	***(1.8%)***	***56 - 68***
Real Estate	*5.2%*	*6.0%*	(0.8%)	
Alternative Investments	*4.4%*	*5.0%*	(0.6%)	
TOTAL PRIVATE EQUITY	***9.6%***	***11.0%***	***(1.4%)***	***8 - 14***
Domestic Fixed Income	28.0%	26.0%	2.0%	23 - 29
Liquidity	2.1%	1.0%	1.1%	0 - 3
TOTAL FIXED & LIQUIDITY	***30.1%***	***27.0%***	***3.1%***	***23 - 32***
TOTAL INVESTMENT ASSETS	100.0%	100.0%		

Currency Hedging - Market Value (amounts in millions)

Managers	Pacific Basin		European		Total	
Active International	$ 2,657.23	3.4%	$ 6,187.46	0.0%	$8,844.69	1.0%
Passive International	$ 2,903.80	18.2%	$ 7,598.12	0.0%	$10,501.92	5.0%

* Does not include emerging market securities, Canadian stocks, cash or accruals.

Currency Realized Gains/(Losses) (amounts in millions)

	Currency Realized Gains/(Losses)		
Managers	1 Month	1 Year	Since Inception
Active International	($1.10)	$12.76	$107.98
Passive International	$0.00	$82.72	$636.34

Securities Lending Income

Asset	Current Fiscal Year 7/01-05/02	vs.	Prior Fiscal Year 7/00-05/01
Domestic Equity	$17,512,911		$11,230,414
International Equity	$30,676,875		$29,732,393
US Treasury	$32,708,968		$18,462,698
Other Fixed Income Securities	$2,385,674		$1,099,432
Total Income	$83,284,428		$60,524,937

Securities Lending (On-Loan/Collateral Summary)

Asset	Securities On-Loan	Collateral Valuation	Percent
Domestic Equity	$2,088,116,690	$2,183,914,498	105%
International Equity	$4,649,532,864	$4,893,263,838	105%
US Treasury	$7,703,662,306	$7,856,677,065	102%
Other Fixed Income Securities	$638,542,641	$653,821,370	102%
Total Value	$15,079,854,501	$15,587,676,770	103%

California State Teachers' Retirement System

Monthly Investment Summary

	Market Value 4/30/02	Market %	Market Value 5/31/02	Market %	Market Value Difference	% Diff.
Liquidity						
STRS - Cash Allocation	2,116,564,672		2,004,861,285		(111,703,387)	
STRS - US Cash Equitization	124,590,329		123,788,863		(801,467)	
Total Liquidity	2,241,155,001	2.24%	2,128,650,147	2.13%	(112,504,854)	(0.11%)
Domestic Equity						
Active						
Ariel Capital	566,663,624		571,998,315		5,334,691	
BGI - Enhanced	569,074,225		566,202,926		(2,871,299)	
Brown Capital Management	328,181,317		317,897,348		(10,283,969)	
Chicago Equity Partners	419,948,261		418,503,493		(1,444,768)	
Delaware Investment Adv	469,410,754		472,643,168		3,232,414	
Delphi Management, Inc	248,374,024		246,250,653		(2,123,371)	
Denver Investment Advisors	618,592,667		614,520,856		(4,071,812)	
DSI International Management	620,084,905		617,049,245		(3,035,660)	
First Quadrant	425,500,146		424,685,625		(814,521)	
Mellon Capital Management	512,200,595		508,982,541		(3,218,054)	
NCM Capital Management	393,856,501		385,901,374		(7,955,127)	
Putnam Investments	289,963,031		282,786,794		(7,176,237)	
Sasco Capital	905,252,358		910,355,022		5,102,664	
SSgA - Enhanced	627,329,696		622,826,019		(4,503,677)	
TCW Asset Manangement Co	237,989,696		222,826,554		(15,163,143)	
UBS Brinson - USEQ	611,140,128		608,619,586		(2,520,542)	
Passive						
BGI Extended Market Index	2,984,218,873		2,876,809,198		(107,409,675)	
BGI S&P 500 Index	12,843,937,727		12,765,141,055		(78,796,671)	
SSgA - Extended Mkt Index	2,272,970,458		2,190,706,806		(82,263,652)	
STRS - S&P 500 Index	12,861,692,537		12,782,850,999		(78,841,538)	
Total Domestic Equity	38,806,381,524	38.71%	38,407,557,577	38.36%	(398,823,948)	(0.35%)
International Equity						
Active						
Bank of Ireland Asset Management	824,975,894		822,493,558		(2,482,335)	
Battery March Financial Mgmt Inc	395,243,904		399,425,900		4,181,996	
Blackrock, Inc.	247,919,267		259,863,208		11,943,941	
Capital Guardian Trust	1,190,163,804		1,193,720,542		3,556,737	
Delaware Int'l Advisors Inc.	481,135,831		492,524,641		11,388,810	
Fidelity Management Co.	458,739,892		458,456,417		(283,475)	
Fiduciary Trust	541,580,926		538,178,849		(3,402,077)	
Goldman Sachs Asset Mgmt	344,926,900		342,729,916		(2,196,984)	
Lazard Freres	742,938,008		750,485,881		7,547,873	
Marvin & Palmer Assoc, Inc.	381,242,422		380,252,769		(989,652)	
Morgan Stanley	739,054,581		743,068,066		4,013,486	
Newport Pacific Mgmt	234,193,072		237,992,693		3,799,620	
Nicholas-Applegate Capital Mgmt	417,625,519		416,259,389		(1,366,130)	
Oechsle International	1,042,495,936		1,040,230,864		(2,265,072)	

California State Teachers' Retirement System
Monthly Investment Summary

	Market Value 4/30/02	Market %	Market Value 5/31/02	Market %	Market Value Difference	% Diff.
Schroder Capital	505,399,883		527,999,782		22,599,899	
Scudder Kemper Investments	660,274,428		663,931,262		3,656,835	
UBS Brinson - Non-USEQ	443,395,429		449,896,254		6,500,825	
Passive						
BGI - EAFE Index	6,360,578,431		6,448,179,503		87,601,072	
SSgA - EAFE Index	4,197,812,540		4,256,467,445		58,654,905	
SSgA - Emerging Market Index	1,477,291,772		1,471,719,318		(5,572,454)	
Total International Equity	21,686,988,438	21.63%	21,893,876,257	21.87%	206,887,820	0.23%
Fixed Income						
Hartford Investment Mgmt	251,039,998		300,287,341		49,247,342	
MW Post Advisory Group	151,975,102		203,139,862		51,164,760	
Seix Investment Advisors	304,208,631		305,495,805		1,287,175	
STRS - Corporate Bond Index	9,227,609,372		9,297,577,731		69,968,359	
STRS - Mortgage Bkd Security Ind	8,272,431,698		8,294,501,241		22,069,542	
STRS - Mortgage Loan	717,437,516		747,217,608		29,780,092	
STRS - US Treasury & Agency Ind	9,005,637,975		8,895,326,856		(110,311,119)	
Total Fixed Income	27,930,340,293	27.86%	28,043,546,443	28.01%	113,206,150	0.15%
Real Estate						
CB Richard Ellis	1,598,802,797		1,599,701,688		898,891	
Clarion Partners, LLC	406,262,951		407,416,784		1,153,833	
Heitman Capital Management	388,835,379		386,510,010		(2,325,369)	
Lend Lease	1,144,132,274		1,103,358,933		(40,773,341)	
Lowe Enterprisees Inv Mgmt	164,200,600		164,170,179		(30,421)	
MIG Realty Advisors	338,105,883		337,656,295		(449,587)	
Sentinel Realty Advisors	40,063,900		40,044,281		(19,619)	
Special Situations	429,577,725		450,503,484		20,925,759	
SSR Realty Advisors	501,779,640		502,818,084		1,038,443	
Thomas Properties Group	165,738,131		248,941,174		83,203,042	
Total Real Estate	5,177,499,281	5.16%	5,241,120,912	5.24%	63,621,631	0.07%
Alternative Investments						
Limited Partnerships	4,393,270,149		4,392,174,243		(1,095,905)	
STRS - Distributed Stock	7,367,514		7,018,218		(349,296)	
Total Alternative Investments	4,400,637,663	4.39%	4,399,192,461	4.39%	(1,445,201)	0.00%
Grand Total	100,243,002,199	100.00%	100,113,943,797	100.00%	(129,058,402)	

PLEASE NOTE:

All Figures Include Accruals
The Information contained in this report is UNAUDITED
Member Home Loan Securitization Principal Balance as of 5/31/2002 is $69,199,101
The Internally Managed Cash Collateral Portfolio is NOT included above.
The Net Asset Value as of 5/31/2002 is $6,227,448,734

California State Teachers' Retirement System
Internal S&P 500 ex-Tobacco Indexed Portfolio

The California State Teachers' Retirement System's internal S&P 500 ex-Tobacco Indexed Portfolio (Portfolio) was $12,782,850,999 as of May 31, 2002. The Portfolio seeks to closely track the return of the custom S&P 500 ex-Tobacco Index[2].

Table 1 below shows the returns of the Portfolio[1].

Table 1: Performance as of May 31, 2002

Period	Portfolio	Index	Tracking Error
Total Return			
1998, Apr-Dec	+12.892%	+12.975%	-0.084%
1999	+21.111%	+20.987%	+0.124%
2000	-9.450%	-9.486%	+0.036%
2001	-12.060%	-12.098%	+0.038%
2002 YTD	-6.826%	-6.831%	+0.005%
Annualized Return			
1 Year	-14.128%	-14.159%	+0.031%
2 Years	-12.637%	-12.662%	+0.025%
3 Years	-5.490%	-5.543%	+0.053%

[1] Inception date of March 31, 1998
[2] Effective September 1, 2000, the benchmark for the CalSTRS S&P 500 ex-Tobacco Indexed Portfolio is the custom S&P 500 ex-Tobacco Index